

78-3042/10

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20 JUN

MEMORANDUM FOR: Director, National Foreign Assessment Center
Deputy Director for Administration
Deputy Director for Science and Technology
Deputy Director for Operations

FROM: James H. McDonald
Director of Logistics

SUBJECT: Implementation of Task Force Recommendations

REFERENCE: Industrial Contracts and Industrial Security
Final Report dated February 1978

1. The DCI's Task Force on Industrial Contracting and Industrial Security set forth a number of recommendations designed to strengthen the security aspects of Agency contracting procedures. Policy guidance on implementing the Task Force recommendations, given particular emphasis by the DCI, has been issued to procurement personnel in the attached OL Procurement Notes, also listed below:

- PN #103 - Industrial Contract Security - Determination of Responsibility
- PN #115 - Security Performance Incentive in Incentive/Award Fee Contracts
- PN #116 - Enforcement of Security Provisions in Agency Contracts
- PN #117 - Security Requirements in Requests for Proposals.

2. These Procurement Notes primarily address the Contracting Officer's responsibilities. Their effective implementation, however, depends, on large part, on close cooperation between procurement, technical, and security personnel involved in contracting activities. Your assistance is, therefore, requested in disseminating the attached Procurement Notes to appropriate technical officers within your command structure and in encouraging their support for early implementation of these policies.

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SUBJECT: Implementation of Task Force Recommendations

3. Procurement Notes, in furtherance of several remaining Task Force recommendations, will be promulgated in the near future. Your assistance in this important matter will be greatly appreciated.

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James H. McDonald

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OFFICE OF LOGISTICS
PROCUREMENT NOTE NO. 103

9 SEP 1977

INDUSTRIAL CONTRACT SECURITY -
DETERMINATION OF RESPONSIBILITY

1. In a recent letter prepared by the Director of Central Intelligence (DCI) for dissemination to selected Agency contractors, concern was expressed regarding compliance with industrial contract security requirements. A plea is made in that same letter for higher levels of consciousness and higher standards of performance with regard to security aspects of Agency contracts. In this regard the DCI has stated:

"I have directed other initiatives as well, including the requirement that a contractor's security record and posture be taken into account when it comes to the award of new contracts and more effective provisions within our contracts with respect to security."

2. Contracting officers are routinely required to make an affirmative determination of responsibility in accordance with ASPR 1-902 which states that: "Purchases shall be made from, and contracts shall be awarded to, responsible contractors only." To meet the minimum standards for an affirmative determination of responsibility a contractor must:

a. Have adequate financial resources, or the ability to obtain such resources as required during performance of the contract (see Defense Contract Financing Regulations, Part 2, Appendix E, and any amendments thereto; see also 1-904.2 and 1-905.2; for SBA certificates of competency, see 1-705.4);

b. Be able to comply with the required or proposed delivery or performance schedule, taking into consideration all existing business commitments, commercial as well as governmental (for SBA certificates of competency, see 1-705.4);

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c. Have a satisfactory record of performance (contractors who are seriously deficient in current contract performance, when the number of contracts and the extent of deficiency of each are considered, shall, in the absence of evidence to the contrary or circumstances properly beyond the control of the contractor, be presumed to be unable to meet this requirement). Past unsatisfactory performance, due to failure to apply necessary tenacity or perseverance to do an acceptable job, shall be sufficient to justify a finding of nonresponsibility. (In the case of small business concerns, see 1-705.4(c)(vi) and 1-905.2);

d. Have a satisfactory record of integrity (in the case of a small business concern, see 1-705.4(c)(vi)); and,

e. Be otherwise qualified and eligible to receive an award under applicable laws and regulations, e.g., Section XII, Parts 6 and 8 (in the case of a small business concern, see 1-705.4(c)(v)).

3. Compliance with applicable security requirements, whether imposed by statute, regulation or embodied in contract terms and conditions, is a critical element in performance of contracts for this Agency. As such, contracting officers are directed to review existing procedures which require coordination with a cognizant representative of the Office of Security prior to execution of any contract which involves classified information. They may not execute any contract involving classified information (work, reports, association hardware, etc.) without certification from their cognizant security representative regarding the contractor's current security capability as well as the contractor's record of past performance in complying with security requirements. Approval by the cognizant security representative of contractor responsibility in the area of compliance with industrial contract security requirements must be evidenced by his signature on Form 1218, Procurement Justification and Routing Sheet, in accordance with existing procedures.

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4. New, stronger security clauses for inclusion in Agency contracts are in process and will be promulgated upon completion.

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James H. McDonald
Director of Logistics

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CONCUR:

[REDACTED]

Associate General Counsel

Date

[REDACTED]

Chief, Security Staff O/L

Date

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PROCUREMENT NOTE NO. 115

SECURITY PERFORMANCE INCENTIVE
IN INCENTIVE/AWARD FEE CONTRACTS

1. The Task Force on Industrial Security and Industrial Contracting recommended in its interim report that incentive/award fee type contracts include security performance, along with other performance requirements, as a basis for fee determination. The DCI has approved this concept and has noted that the value of products and/or services required through industrial contracts may be diminished or negated if security is compromised. This procurement note is issued to provide policy guidance on implementation of the Task Force recommendation.

2. Effective this date, procurement personnel are directed to incorporate security performance criteria in award fee and combination incentive/award fee contracts. This policy is not applicable to other incentive fee arrangements. The purpose of establishing security performance criteria as one determinant of award fee is to provide a meaningful incentive to contractors, balanced against the primary contract objective of obtaining products and/or services. Security performance criteria shall, therefore, be tailored to the unique requirements of each contract action, and no standard predetermined weight shall be assigned to this performance factor. The weight given to security performance criteria should be based on the sensitivity of the contemplated effort, and a determination of the relative importance of security versus other selected performance factors. Generally, there will be a direct correlation between the sensitivity of the contemplated effort and the weight assigned to security performance criteria.

3. It is emphasized that this requirement is closely linked to the prenegotiation activities of (a) proposal solicitation in which contemplated security requirements are established and the contractor's plan for satisfying those requirements is requested, and (b) proposal evaluation during which the contractor's security plan will be assessed, and in competitive situations rated as a part of the overall source selection process.

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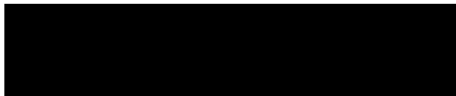
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4. Security performance criteria shall be established in a manner similar to other selected performance criteria and will result in a unilateral determination by the Government not subject to the contract disputes clause. In selecting these criteria, consideration should be given to security requirements established prior to proposal solicitation, the contractor's proposed security plan and the Government's evaluation thereof, and the security requirements to be incorporated in the anticipated contract. Examples of subelements that might be used to define security performance include: timely submission of contractor personnel security approval requests; proper handling and processing of classified contract data and documents; contractor's responsiveness to instructions and requirements of Agency security representatives; contractor compliance with security requirements unique to the contract; contractor performance regarding proper classification of contract documents and data; promptness and diligence in correcting deficiencies noted during contractor security inspections; contractor's success in avoiding compromise of classified information; contractor's record regarding reported security violations; and contractor's overall record of compliance with established Agency security procedures and directives.

5. It is recognized that this policy injects a new evaluation element into the determination of award fees under Agency contracts and that careful planning will be required for its successful implementation. Accordingly, attention must be given to this requirement early in the procurement cycle. Procurement personnel shall be responsible for implementing this policy and necessary coordination with technical personnel involved in evaluating contractor performance and performing award fee evaluations. Compliance with the requirements of this Procurement Note will be reviewed during scheduled inspections of decentralized contract teams and as a part of reviews by the Agency Contract Review Board.

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James H. McDonald
Director of Logistics

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OFFICE OF LOGISTICS
PROCUREMENT NOTE NO. 116

11 JUL 1978

ENFORCEMENT OF SECURITY PROVISIONS
IN AGENCY CONTRACTS

The Task Force on Industrial Contracts and Industrial Security recommended and the DDCI has directed:

"That the Director of Security be responsible for monitoring the security responsibilities of the contractor. The enforcement of contract terms, including those covering security performance, remain the responsibility of the contracting officer."

"That remedies available in contract law be used as the primary means of enforcing contractor compliance with industrial security standards."

While these directions do not change procedures which have been used on a continuing basis for several years, we believe it is necessary to emphasize the importance of the respective roles of the contracting officer and his security representative in the enforcement of security provisions of our Agency contracts.

STATINTL

Since the damaging [REDACTED] matter, a multifaceted program has been under way in an attempt to shore up our industrial security program. For example, stronger security clauses are in process. Security manuals are being revised. Contracts are being incentivized to provide either reward or penalty for contractor security performance. Contractors are being inspected by teams from the Agency and security performance has been identified as a critical item in award of contracts.

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Admiral Turner, in a September 1977 letter to our contractors, has said:

"I want to make it clear that I regard security as being of central importance in the performance of contracts funded or administered by this Agency. Nearly all of the work under contract would be of lesser value, and much of it would be of little value if it could not be performed in a secure manner and protected against unauthorized disclosure, whether deliberate or inadvertent, which I have the statutory obligation to protect."

Contractor compliance with industrial contract security requirements must be of greater concern to each of us involved in the procurement process than at any time in the past. Some contractors have very effective security programs and actively seek to improve them; most contractors need to effect higher standards. Overall security policy standards and the monitoring thereof are Office of Security responsibilities. Enforcement of security requirements are the responsibility of the contracting officer.

Contracting officers are directed, in light of the DDCI direction, above, to again review and to maintain a working knowledge of the security requirements expressed in the General Provisions (Section A, Article 23), Procurement Note numbers 58, 103 and 115 as well as the appropriate security clauses of the contract schedule, and existing security procedures. Compliance with applicable security requirements, whether imposed by statute, regulation, General Provisions or embodied in contract terms and conditions, shall be strictly enforced.

STATINTL

Contracting officers are again reminded that they may not execute any contract involving classified information (association, work, reports, hardware, etc.) without certification from their cognizant security representative regarding the contractor's current security capability as well as the contractor's record of past performance in complying with security requirements.

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OFFICE OF LOGISTICS
PROCUREMENT NOTE NO. 117

18 JUL 1978

SECURITY REQUIREMENTS IN REQUESTS FOR PROPOSALS

1. The Task Force on Industrial Contracts and Industrial Security recommended in its interim report that "requests for proposals which anticipate classified contracts describe security requirements and require that the contractor include in his proposal his plan for satisfying those requirements." The purpose of this Procurement Note is to implement the above recommendation.

2. While it has been common practice to describe the security requirements of a contemplated contract in Agency RFP's, potential offerors have not generally been instructed to submit a formal plan for meeting these requirements. Effective this date, procurement personnel are directed to include a requirement in RFP's for offerors to submit a plan for satisfying security requirements of the anticipated contract in their proposals. The size and complexity of the offeror's security plan will depend upon the magnitude of security requirements in the RFP. In some cases, one paragraph in the offeror's proposal may suffice, while in others a multipart document may be necessary. In any event, the security plan should demonstrate that the offeror has a full comprehension of the security requirements and intends to comply with same.

3. Logistics Instruction No. 45-30 dated 14 June 1978, a copy of which is attached, establishes the requirement for completion of a Contract Data Classification Guide (CDCG) prior to execution of all contracts exceeding \$10,000 in value where work, reports, association, hardware, or production equipment is determined to be classified. The CDCG will be incorporated in such contracts by reference. The Contracting Officer's Technical Representative is responsible for completion of the CDCG; however, his determinations of security classification will very likely involve coordination and discussions with the Contracting Officer and cognizant Industrial Security Officer. Procurement personnel should encourage COTR's to make CDCG security determinations prior to solicitation of proposals as this document, properly completed, can then be used as a basis for establishing security requirements in the RFP.

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4. A representative listing of matters that should be addressed in offeror's proposed security plans is attached. Contract security requirements and criteria for evaluating proposed security plans should be tailored to the unique circumstances of each contract action. Therefore, the attached listing is intended to provide only general guidance regarding matters to be covered in offeror's proposed security plans.

5. Procurement personnel will be responsible for implementing this policy and effecting necessary coordination with technical and security personnel. Compliance with the requirements of this Procurement Note will be reviewed during scheduled inspections of decentralized contract teams and included as a part of reviews by the Agency Contract Review Board.

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James H. McDonald
Director of Logistics

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LOGISTICS INSTRUCTION NO.
LI 45-30

LI 45-30
LOGISTICS
21 June 1973

SUBJECT: Industrial Contract Security -
Contract Data Classification Guide

REFERENCES: a. HR [REDACTED] Classified Contract Security
b. Office of Logistics Procurement Note No. 103
Industrial Contract Security

1. PURPOSE

This instruction supplements existing procedures governing the Agency's classified procurement activities which will identify with more specificity the security classification of the elements and products thereof.

2. POLICY

- a. Adherence to the security policy and standards for industrial contractual arrangements established by the Director of Security is a critical element in the administration of contracts for this Agency.
- b. The Contract Data Classification Guide (CDCG)* will be completed on all procurement actions for materiel and/or services anticipated to exceed \$10,000 and where the work, reports, association, hardware, or production equipment is determined to be classified.
- c. A copy of the completed CDCG will accompany the contract when it is forwarded to the contractor for signature. It will serve to notify the contractor of the security classification of the key elements associated with the contract. It will become a permanent part of all official copies of the contract.
- d. The contract clause incorporating the CDCG should clearly state that this is not an all-inclusive list. Although the CDCG may be a part of the contract, it only serves as guidance for contractor handling of classified materials.

* To be reproduced locally

LOGISTICS INSTRUCTION NO.
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LOGISTICS
21 June 1978

Material produced under the contract and not specifically covered by the CDCG will still require the contractor to seek Agency guidance regarding its handling.

3. RESPONSIBILITIES

- a. Effective immediately, Contracting Officers will not execute any contract of which any aspect is classified without a properly executed CDCG.
- b. The CDCG will be completed by the Contracting Officer's Technical Representative and provided the Contracting Officer as an attachment to the Request for Procurement Services (Form No. 2420) or the Requisition for Materiel and/or Services (Form No. 88) as appropriate.

STATINTL


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Director of Logistics

Attachment

(ENTER APPROPRIATE CLASSIFICATION OF DATA OPPOSITE EACH ITEM BELOW)

CONTRACT NO.

CLASSIFICATION
(CONF-SECRET-TS-OTHER)

| | |
|---|---|
| <p>1. GOVERNMENT FURNISHED DATA:</p> <p>A. Contract</p> <p>B. Statement of Work</p> <p>C. Technical Information</p> <p>D. Specifications</p> <p>E. Drawings</p> <p>F. Graphics</p> <p>G. Computer Software</p> <p>H. Communication Security (COMSEC) Material</p> <p>I. Other (attach sheet for additional Data items)</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
| <p>II. CONTRACTOR PRODUCED DATA:</p> <p>A. Reports</p> <p>1. Preliminary</p> <p>2. Interim</p> <p>3. Final</p> <p>4. Manuals</p> <p>5. Drawings</p> <p>6. Graphics</p> <p>7. Computer Software</p> <p>8. Other (attach sheet for additional Data items)</p> <p>B. Hardware: (identify and note if sight sensitive)</p> <p>1. Component</p> <p>2. System</p> <p>3. Sub-system</p> <p>4. Breadboards</p> <p>5. Prototypes</p> <p>6. Engineering Models</p> <p>7. Other (attach sheet for additional Data items)</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
| <p>III. CRITICAL SECURITY ELEMENTS OF PROCUREMENT: (Statement)</p> | |

Items Typically Covered in Offeror's Security Plans

1. Introduction/Objectives
2. Security Organization
 - a. Key Personnel
 - b. Guard Force
 - c. Fire/Safety Protection
3. Personnel Security
 - a. Personnel Screening
 - b. Access Processing
 - c. Security Questionnaire
 - d. Security Training/Education
4. Facility Security
 - a. Plan Protection
 - b. Project/Program Work Area
 - c. Personnel Identification
 - d. Visitor Control
5. Contracts and Finance
 - a. General
 - b. Job Authorizations
 - c. Vouchers
 - d. Audits
6. Material Procurement
 - a. Routine Unclassified Procurement
 - b. Special Unclassified Procurement
 - c. Classified Procurement
 - d. Subcontract Security
7. Automatic Data Processing
 - a. General
 - b. Storage, Protection and Control
 - c. Key punch Operations
 - d. Library
 - e. Vendor Service Technicians/Maintenance Log
 - f. Audit Trail
 - g. Subcontracting
 - h. Emergency Plan/System Crash/Compromise

8. Communications Security
 - a. Sterile Post Office Boxes
 - b. Sterile Telephones
9. Emergency Plans
 - a. Fire Response
 - b. Civil Disorders